

# **Division of Labor: *California's Renewed Budget Crisis Splits the Union Movement***



**CALIFORNIA  
TEACHERS  
ASSOCIATION**



**AFSCME**®  
*in the public service*

**Daniel J.B. Mitchell**

**Labor, Work, and Social Movements**

**Working Group**

**Dept. of Sociology**

**October 19, 2009**

**And now for something  
completely different...**



**Daniel J.B. Mitchell**

**Labor, Work, and Social Movements**

**Working Group**

**Dept. of Sociology**

**October 19, 2009**

# Two Budget Metaphors



# ***When was California's original sin?***

- **1869**
- **1910**
- **1978**
- **1940**
- **1990**
- **2003**

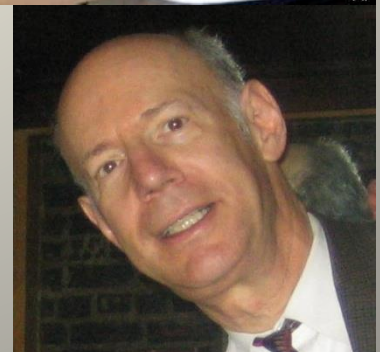
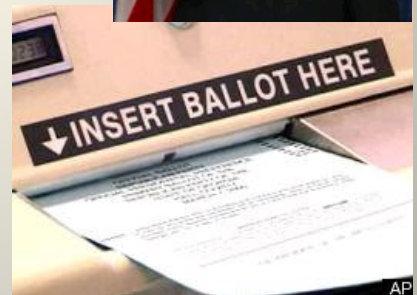


# Outline for Today

- California History
- California Budget Practices
- Schwarzenegger Period
- May 19, 2009 Election
- Post-May 19 and Mitchell's Interpretation



Accounting



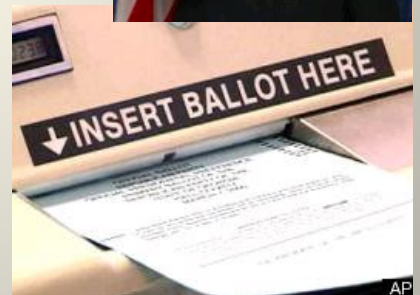


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# ***“Island on the Land”***


- **Transcontinental RR**
- **Big 4**
- **Southern Pacific**

**1869**



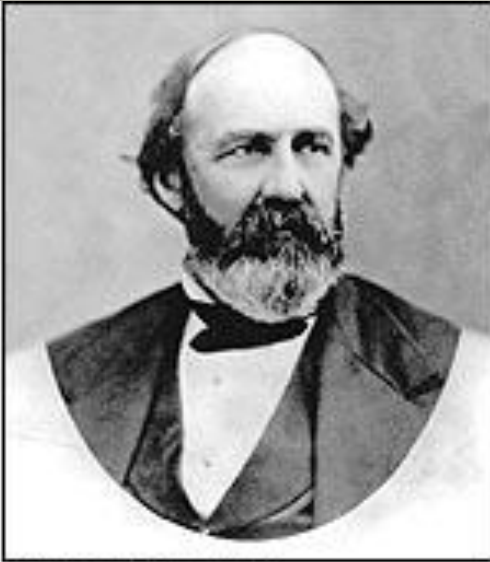
**Carey McWilliams**

# ***“Island on the Land”***

- **Transcontinental RR**
  - **Big 4**
  - **Southern Pacific**
- 

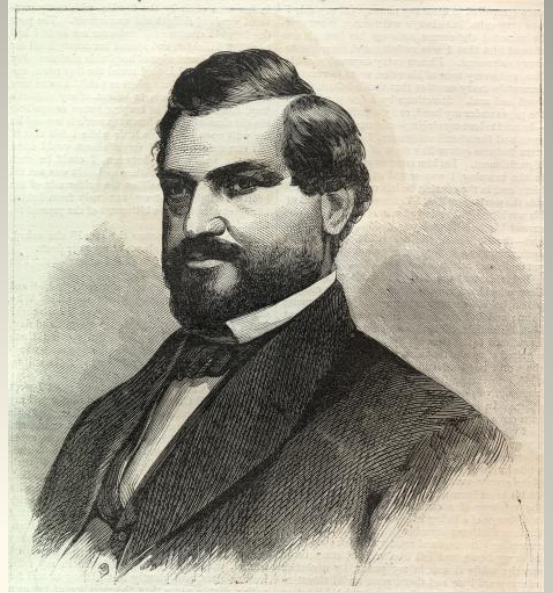


**Collis P. Huntington**



THE BANCROFT LIBRARY,  
UNIVERSITY OF CALIFORNIA, BERKELEY

**Leland Stanford**



CALIFORNIA STATE LIBRARY



CALIFORNIA HISTORICAL SOCIETY

**Mark Hopkins**

**Charles Crocker**

**The Big Four**

**Huntington Park**



**Stanford University**



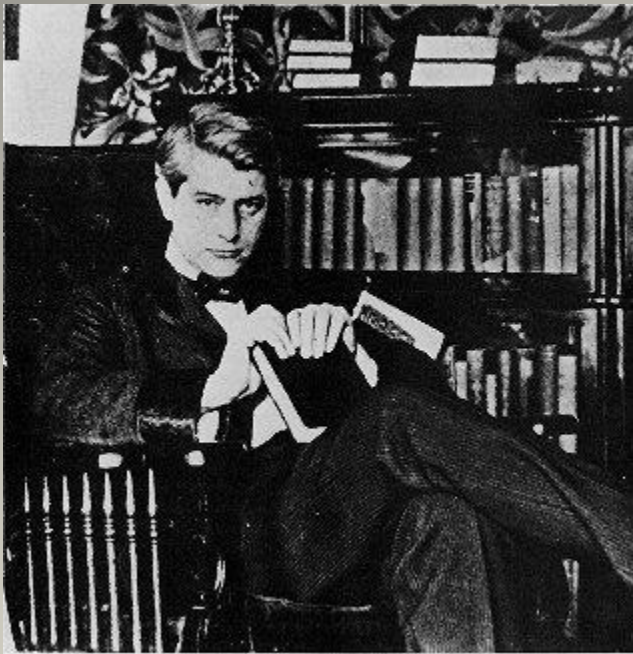
**Crocker Galleria**



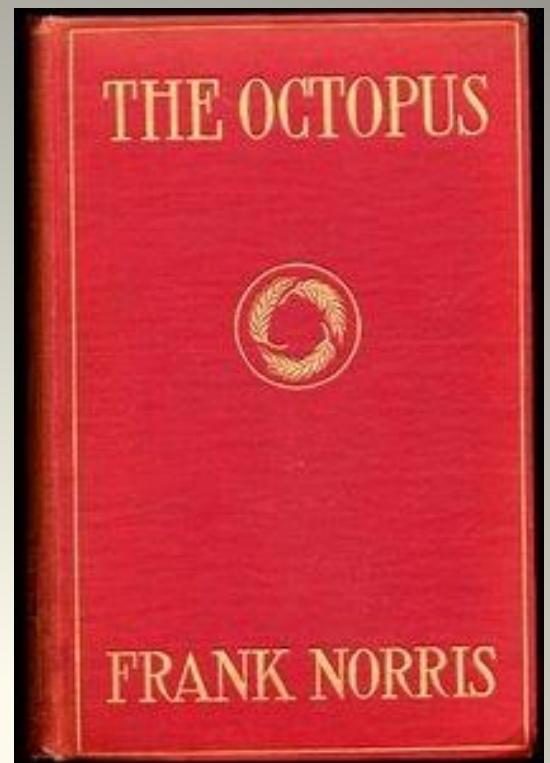
**Mark Hopkins Hotel**

**The Big Four**





**Frank Norris 1870-  
1902**



**1901**



# Progressive Era



## Gov. Hiram Johnson

- Initiative, referendum, recall (direct democracy)
- Workers' compensation
- Women's suffrage

1910

*Hiram Johnson*







# Key Initiative

1978

**Proposition 13  
(Property tax –  
taxpayer revolt)**

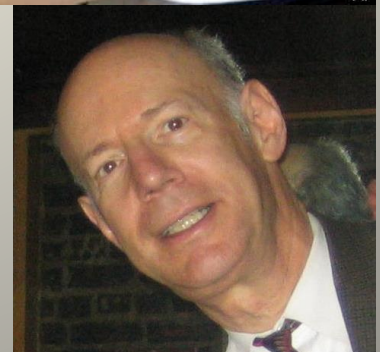
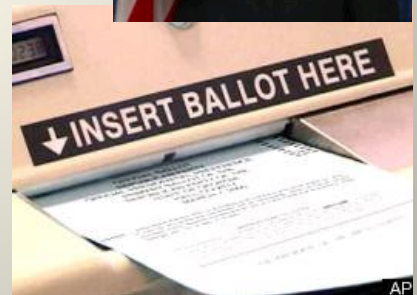


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supposed to be

# Repetition is a teacher





supposed to be

# Repetition is a teacher



So why does  
this happen?





# The Usual Suspects



# The Usual Suspects



**2/3 vote for budget**

**2/3 vote for taxes**

**Proposition 13**

**Voter-mandated spending formulas,  
programs, bond issues**

**Voter-imposed term limits**

**Volatile revenue stream**

**Gerrymandered districts**

**Party polarization**

**Direct Democracy**

**Direct Democracy**

# More Suspects



**Surpluses and deficits don't have fixed common-English meanings**

**Stocks and flows are mixed**

**Budget concepts expressed without clear time period**

**Borrowing treated as revenue**

**Use of undefined terms by officials such as shortfalls, gaps, and holes**



**Short Fall?**

**Long Fall?**







## Short Fall?

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Paul Sakuma, Associated Press

## California budget faces new \$8-billion shortfall

Plunging revenue has already put the new budget plan out of balance, the state legislative analyst says. The news may complicate the bid to have voters OK special-election measures in May.

By Jordan Rau and Evan Halper  
March 14, 2009

Reporting from Sacramento -- The plan that Gov. Arnold Schwarzenegger and







# CapitolAlert

THE LATEST ON CALIFORNIA POLITICS AND GOVERNMENT

March 13, 2009

## Leaders react to latest budget gap

The legislative leaders who labored for weeks trying to find a way to patch the \$40 billion budget gap closed last month were quick to react today to LAO projections of a new \$8 billion hole.

Senate leader Darrell Steinberg even extended a special invitation to GOP gubernatorial hopefuls Steve Poizner and [Meg Whitman](#), who have been critical of the February budget deal.

### Assembly Speaker Karen Bass, D-Los Angeles

"Given the nation's continuing economic problems since we passed the budget, it is not surprising to see the state's revenue projections continue to fall. We must keep a careful watch on revenues during these volatile times, and all of us, Democrats and Republicans alike, must be prepared to continue to make tough decisions should the May Budget Revision also show significant declines in revenue. We also have to keep in our minds the potential that if the [ballot measures](#) fail on May 19th, the budget problem grows by another \$6 billion."

### Assembly Republican Leader Mike Villines, R-Clovis



# Holes







# Holes

## The Sacramento Bee CapitolAlert



### PM Alert: Another \$8 billion hole

*In case you missed it today:* The Legislature's budget analyst, **Mac Taylor**, declared today that the **immense package of spending cuts, new taxes and loans** aimed at closing the state's \$40 billion budget deficit will **fall short by \$8 billion** because the state's economy is continuing to falter.

The **legislative leaders who labored for weeks** trying to find a way to patch the \$40 billion budget gap were quick to react today to LAO projections of a new \$8 billion hole.

When it comes to **protecting children's interests, nobody scores 100 percent** in the California Legislature, according to the San Diego-based Children's Advocacy Institute.



# More Suspects



**State Senate President Darrell Steinberg**



# More Suspects



**State Senate President Darrell Steinberg**

# More Suspects





# More Suspects



**\$100 billion  
is an annual  
flow. Is it really  
likely that there  
could have been  
a \$60 billion  
deficit in the  
common  
meaning of that  
term?**



# More Suspects



## Political fallout of Prop 13

**Prop 13 (1978)**



**Prop 4 (1979)**

**Gann Limit**



**Gov. Deukmejian  
tax rebates**



**Prop 98 (1988)  
and Prop 111  
(1990)**



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TEACHERS  
ASSOCIATION**





# More Suspects



## Political fallout of Prop 13

## The Initiative Industry



Build it. Grow it.  
Fight it. Lead it.  
Close it. Solve it.  
Protect it. Win it.



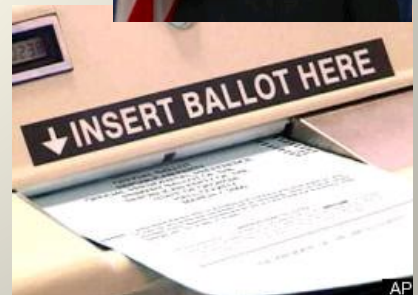
Howard Jarvis  
Taxpayers Association  
*established in 1978*

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# **Prop 49 of 2002 Earmarked Funding for After-School Activities**





**Prop 49 of 2002**  
**Remember the Teacher in**  
**the TV ad for later!**



2003

**More Direct Democracy:  
The Recall Follows the  
Davis Budget Crisis of the  
Early 2000s**



2004

*“It is my preference to go and work with the legislators. This is my No. 1 preference.”*

**-Gov. Schwarzenegger**





2004

*“It is my preference to go and work with the legislators. This is my No. 1 preference.”*

**-Gov. Schwarzenegger**



# Components of the 2004 Budget Deal

- **Borrowing as per Davis plan known as the Triple Flip, but legalized by Props 57 & 58 and enlarged**
- **Compacts with various interest groups including \$2 billion cut to K-14 negotiated with CTA to be paid back as per Prop 98**



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ASSOCIATION**



2005

***“They can join and jump on the train. No. 2, they can go and stay behind and just wave... Or, No. 3, they get in front of the train. And you know what happens then.”***

**Gov. Schwarzenegger**





# Nov. 2005 Special Election

- Prop 74 Shorter teacher “tenure”
- Prop 75 Paycheck protection for public union members
- Prop 76 Budget controls
- Prop 77 Redistricting



**The Year of Reform**





# **Nov. 2005 Special Election**





# Nov. 2005 Special Election







# Nov. 2005 Special Election



# **Nov. 2005 Special Election**



# **Nov. 2005 Special Election**

- **Prop 74 Shorter teacher “tenure”**
- **Prop 75 Paycheck protection for public union members**
- **Prop 76 Budget controls**
- **Prop 77 Redistricting**

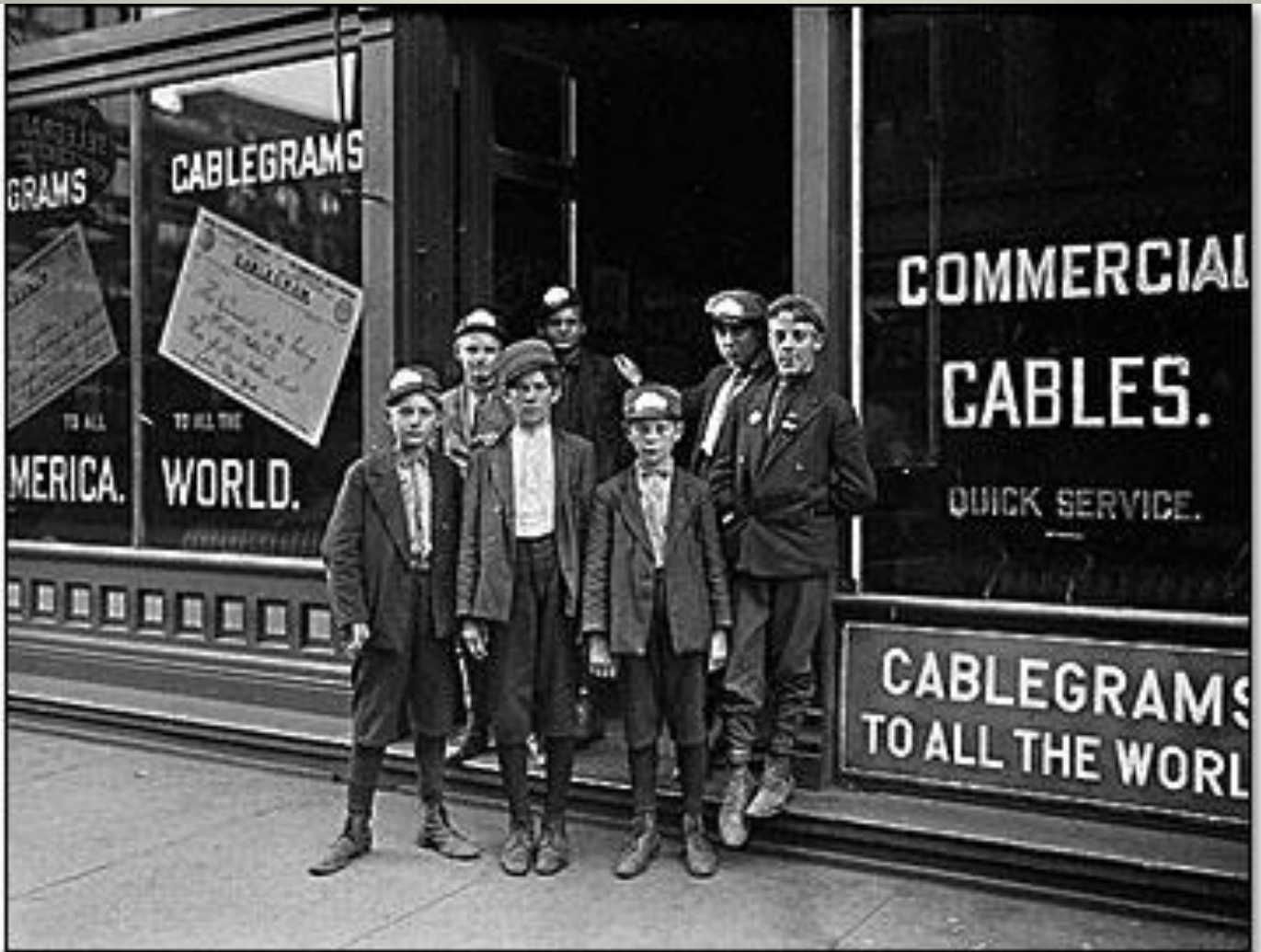
**All Failed**







# Message Sent by Voters: 2005

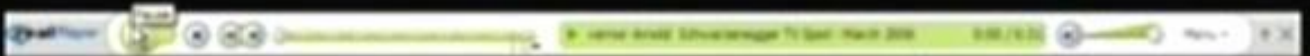


NATIONAL ARCHIVES



# **Message Received: 2006**

Page 6 of 6





2007

# Message Received: *Universal Health Care!*



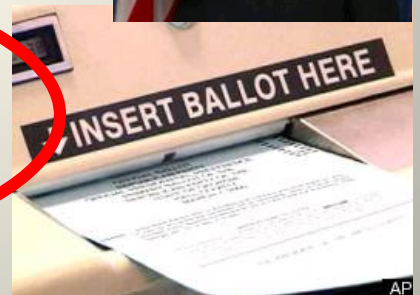
2007 State of the State Speech

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# CALIFORNIA STATEWIDE SPECIAL ELECTION

**Tuesday, May 19, 2009 ★ Official Voter Information Guide**

[VIG Home](#)

[Secretary of State](#)

[Elections](#)

[Political Reform](#)

## **Voter Information Guide (VIG)**

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[Proposition 1A](#)

[Proposition 1B](#)

[Proposition 1C](#)

[Proposition 1D](#)

[Proposition 1E](#)

[Proposition 1F](#)

[Quick-Reference Guide](#)  
[State Budget Overview](#)  
[Voter Bill of Rights](#)

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## **Quick Reference Guide**

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[Proposition 1A](#)

[Proposition 1B](#)

[Proposition 1C](#)

[Proposition 1D](#)

[Proposition 1E](#)

[Proposition 1F](#)

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<http://www.voterguide.sos.ca.gov/quick-reference-guide/index.htm>



OH, GAWD!  
NOT ANOTHER  
ELECTION!



# May 19 Special Election

- **1A: State Budget. Changes California Budget Process. Limits State Spending. Increases "Rainy Day" Budget Stabilization Fund.**
  - ***PS: Extends tax increases 1-2 years, limited midyear cut authority***

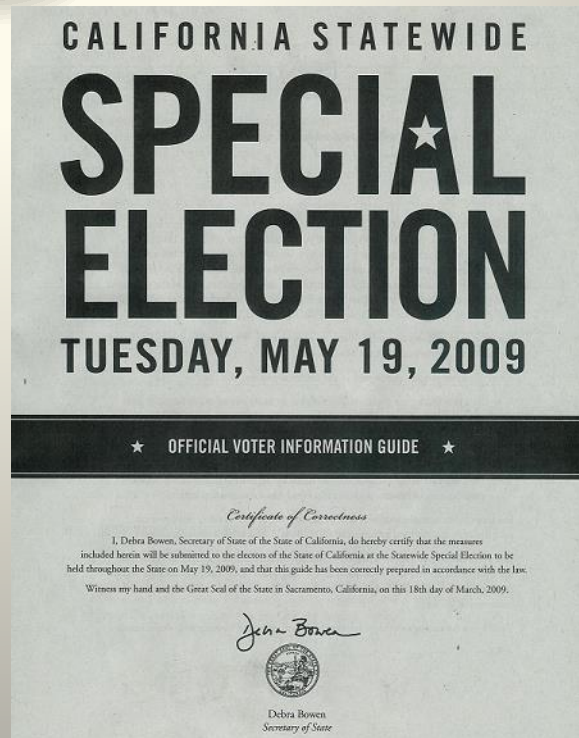
Jan Tinbergen Nobel  
1969



# May 19 Special Election

- **1A: State Budget. Changes California Budget Process. Limits State Spending. Increases "Rainy Day" Budget Stabilization Fund.**
  - ***PS: Extends tax increases 1-2 years, limited midyear cut authority***

pp. 47-48: Adds Section 21 to Article XVI of California constitution





# May 19 Special Election

***Sec. 21(d)(1): The General Fund revenues for the current fiscal year shall be forecast by extrapolating from the trend line derived by a linear regression of General Fund revenues as a function of fiscal year for the period of the 10 fiscal years.***



## CALIFORNIA STATEWIDE SPECIAL ELECTION TUESDAY, MAY 19, 2009

★ OFFICIAL VOTER INFORMATION GUIDE ★

### *Certificate of Correctness*

I, Debra Bowen, Secretary of State of the State of California, do hereby certify that the measures included herein will be submitted to the election of the State of California at the Statewide Special Election to be held throughout the State on May 19, 2009, and that this guide has been correctly prepared in accordance with the law. Witness my hand and the Great Seal of the State in Sacramento, California, on this 18th day of March, 2009.

*Debra Bowen*



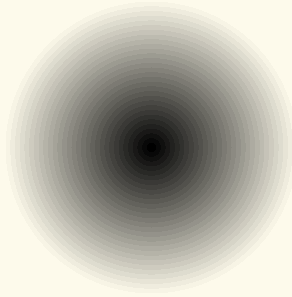
Debra Bowen  
Secretary of State

# May 19 Special Election

- **1A: State Budget. Changes California Budget Process. Limits State Spending. Increases "Rainy Day" Budget Stabilization Fund.**
  - *PS: Extends tax increases 1-2 years, limited midyear cut authority*
- **1B: Education Funding. Payment Plan.**
  - *K-14 Prop 98 pay back 2011-12 and beyond*
- **1C: Lottery Modernization Act.**
  - *aka borrowing against lottery*

# May 19 Special Election

- **1D: Protects Children's Services Funding. Helps Balance State Budget.**
  - ***Redirects (i.e., takes) First-5 early childhood tobacco funds from Prop 10 of 1998***





# May 19 Special Election

- **1D: Protects Children's Services Funding. Helps Balance State Budget.**
  - *Redirects (i.e., takes) First-5 early childhood tobacco funds from Prop 10 of 1998*



## May 19 Special Election

- **1D: Protects Children's Services Funding. Helps Balance State Budget.**
  - *Redirects (i.e., takes) First-5 early childhood tobacco funds from Prop 10 of 1998*
- **1E: Mental Health Services Funding. Temporary Reallocation. Helps Balance State Budget.**
  - *Redirects mental health funds from tax on millionaires of Prop 63 (2004)*
- **1F: Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years.**

# Prop 1A: Cap, Rainy Day, Limited Cut Authority, Tax Extension



## Groping for a Solution



Long-term solution proposed by governor along with his January 2008 budget message:

## Rainy Day Fund





## Problem



**You can only accumulate a rainy day fund when the Sun is shining. What we could have done in the past doesn't fix today's problem.**

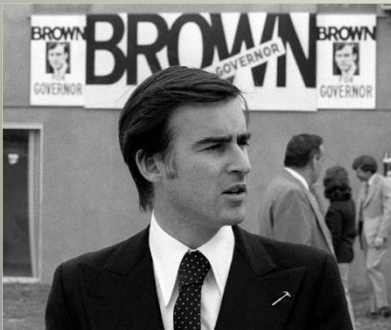
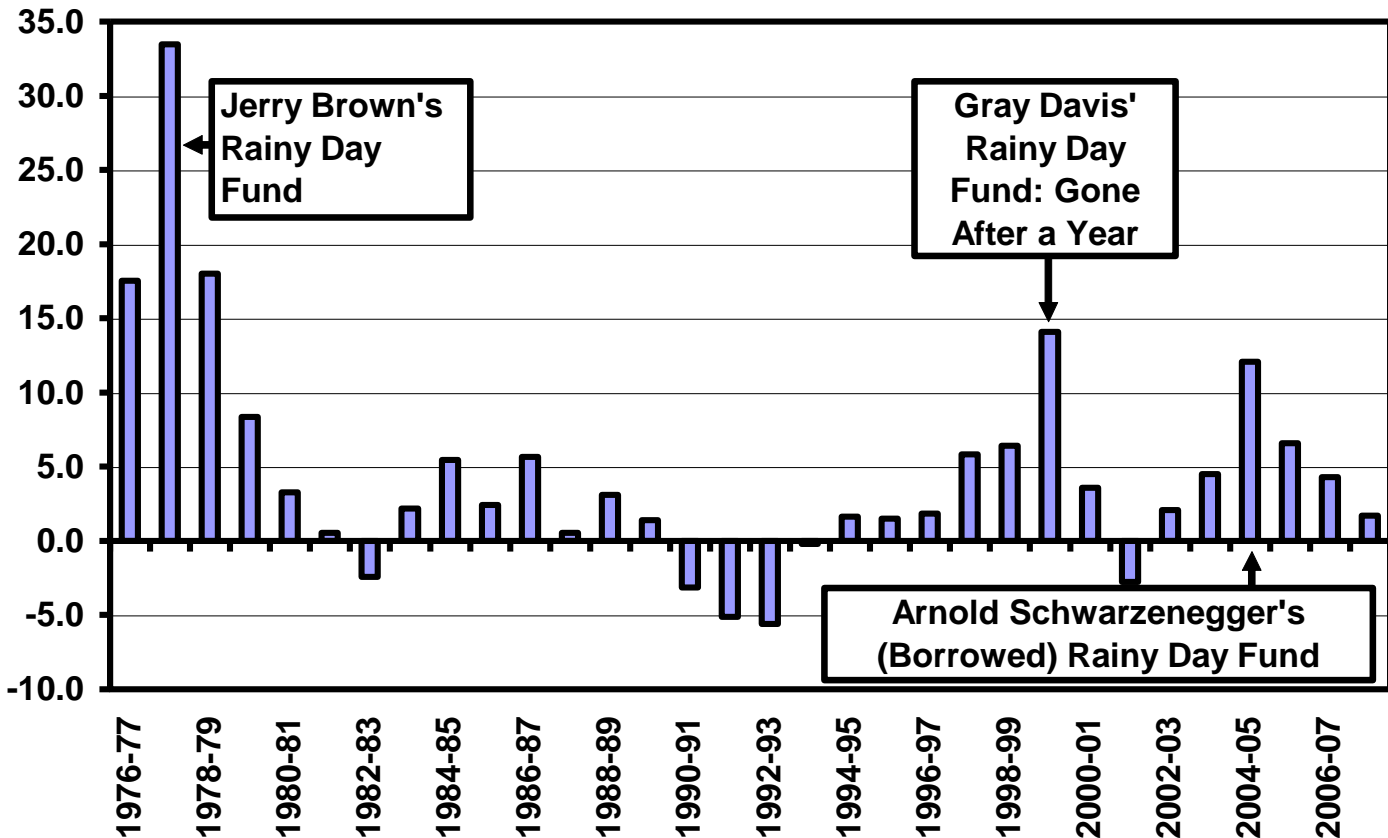
## Problem



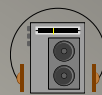
**The rainy day fund the governor wanted to mandate (about 1/8th of the GF) is roughly what Gray Davis had at the dot-com peak.**



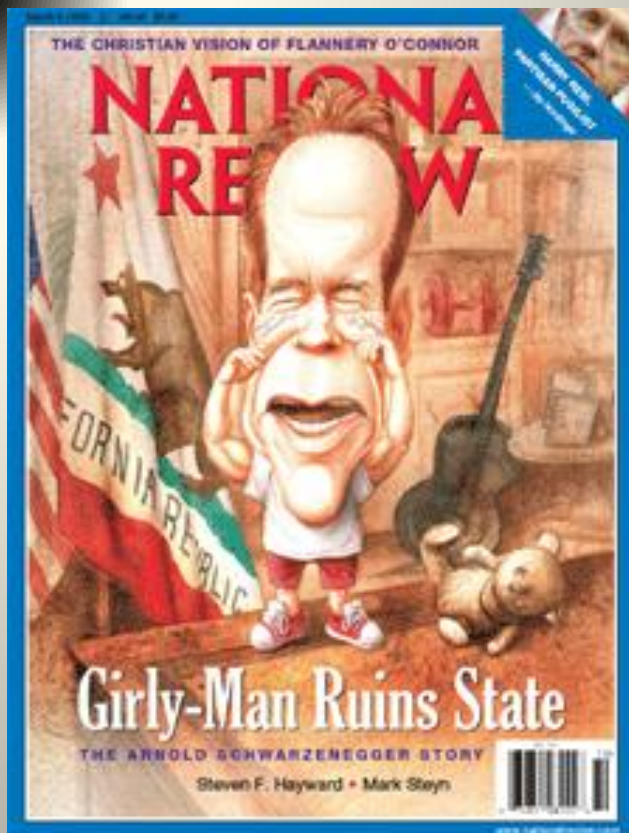
## End of Year GF Reserve as % of Expenditures







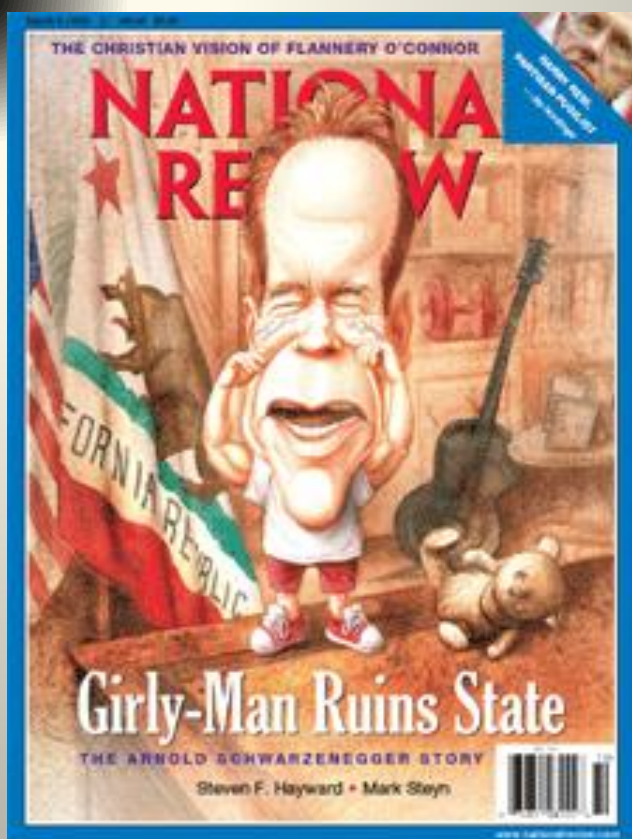
**Revolt  
on the  
Right**







# Revolt on the Right





# Prop 1B contingent on Prop 1A

**CALIFORNIA  
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# Prop 1B contingent on Prop 1A

**CALIFORNIA  
TEACHERS  
ASSOCIATION**







# Prop 1B contingent on Prop 1A

**CALIFORNIA  
TEACHERS  
ASSOCIATION**



# Prop 1B contingent on Prop 1A

CALIFORNIA  
TEACHERS  
ASSOCIATION





# CFT Opposes 1A Despite 1B



California Federation of Teachers

American Federation of Teachers, AFL - CIO



# CFT Opposes 1A Despite 1B



California Federation of Teachers

American Federation of Teachers, AFL - CIO







# **1A and 1B Had No Immediate Effect on State Budget**



**...with a possible exception**

# **1A and 1B Had No Immediate Effect on State Budget**



**...with a possible exception**

# Bond Market Revolt?

B2 FRIDAY, OCTOBER 9, 2009

Los Angeles Times

## California muni bond sale ends weakly

TOM PETRUNO

California suffered a painful snub by investors Thursday as the state's attempt to sell \$4.5 billion in general obligation bonds failed to attract enough demand to raise the full amount.

After boosting interest rates on a chunk of the debt, the state cut the total size of the deal by 8% to \$4.14 billion, Treasurer Bill Lockyer said.

The debt, split among taxable and tax-free bonds, will finance infrastructure projects.

Municipal bond analysts said California was, in part, a victim of circumstances. "The

## Loan mods hit t

The government's program to make troubled mortgages more affordable reaches 500,000.

JIM PUZZANGHERA  
REPORTING FROM WASHINGTON

The often-criticized government program to help homeowners avoid home foreclosures has reached its initial goal for modifying mortgages — after the Obama administration started prodding banks in July to move more quickly in easing loan terms.

But it might be too little too late to stem the tide of foreclosures.

have pushed modifications through the program more aggressively since its launch in March, said Ken Stein, associate director of the California Reinvestment Coalition, an advocacy group for homeowners.

"They're improving and that's good, but the numbers are still insufficient," he said.

Industry officials, however, said banks already were modifying loans on their own — about 2 million since late 2007 through the industry's Hope Now program — and they pointed out that it took time for the government initiative to get up and running.

"This is a new program that had a lot of kinks," said Scott Talbott, the top lobbyist for the Financial Services Roundtable, which represents large financial institutions. "And now it is up to speed, and I expect the pace to continue."

tured mortgage would be able to although the program ease the foreclosures unlikely to end it.

"The [program] into a higher gear enough to forestall increase in fore more house pr said Mark Zandi mist at Moody's I

Borrowers wh es are modified t on the new terms he said. Of th 4.5 million homeo closure or head mortgages 90 day linquent, the p mately will save of them, Zandi pr

Obama admini cials said they un foreclosures con and intended to

# Deep, dark secret!



**Wall Street doesn't care  
whether California spends  
its money wisely.**



**Deep, dark secret!**



**In the end, Wall Street  
doesn't care if California  
has a balanced budget.**

# **Deep, dark secret!**



**What Wall Street cares  
about is floating securities  
(fees) and getting back any  
money it lends.**

# Prop 1C - Lottery



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GTECH, the world leader in gaming technology, supplies end-to-end lottery services and lottery game content. We offer world-class system design, delivery, and ongoing support operations; terminal installation and maintenance; retailer training; marketing support; field service; hotline management; telecommunications network installation, management and maintenance; and a diverse portfolio of games for each channel of distribution.






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PRINTED PRODUCTS

As growth of the instant lottery ticket category continues to change the manufacturing, finishing and game programming paradigm, Scientific Games has been challenged to step forward and invest in this new environment.

We have answered the challenge with a sweeping, multi-year, \$45 million investment in new processes, new systems and new technology to enhance and extend our worldwide manufacturing operations, particularly in the U.S. and England. These forward-thinking investments mean we now have the 3 *newest presses* in the industry.

In the \$50 billion-plus U.S. lottery market, instant ticket category growth continues to outpace online lottery products. Our investment strategically aligns with this growth and coincides with a trend among lotteries internationally to lean more heavily on the instant category for incremental revenue.



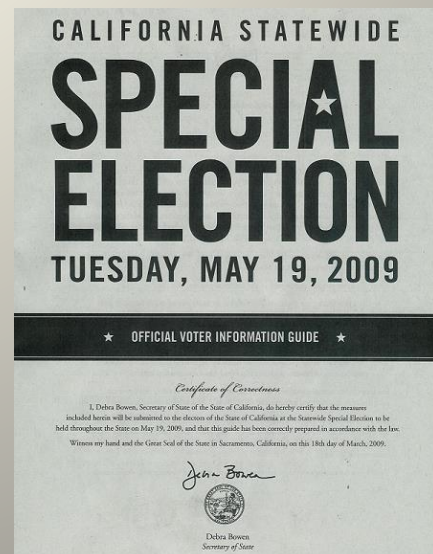


# Who Did What

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- |                    |                                  |
|--------------------|----------------------------------|
| CTA                | • Favor 1A-1F                    |
| CFT                | • 1B (oppose rest)               |
| SEIU*              | • Favor 1B & 1C<br>(oppose rest) |
| AFSCME*            | • Oppose all                     |
| CNA                | • Oppose all                     |
| Building<br>Trades | • Favor<br>1A-1F                 |

\*One local in these unions deviated from statewide position





# Result:

## Late April Intent\*

-----  
All

Union

## Actual Vote

• 1A	39.8%	41.4%	34.1%
• 1B	39.5	41.9	37.4
• 1C	32.3	37.4	35.4
• 1D	39.5	42.2	34.2
• 1E	40.3	43.8	33.6
• 1F	70.9	70.3	73.9

\*Field Poll

CALIFORNIA STATEWIDE  
**SPECIAL  
ELECTION**  
TUESDAY, MAY 19, 2009

★ OFFICIAL VOTER INFORMATION GUIDE ★

*Certificate of Circumstances*

I, Debra Bowen, Secretary of State of the State of California, do hereby certify that the measures included herein will be submitted to the electors of the State of California at the Statewide Special Election to be held throughout the State on May 19, 2009, and that this guide has been correctly prepared in accordance with the law. Witness my hand and the Great Seal of the State in Sacramento, California, on this 18th day of March, 2009.

*Debra Bowen*



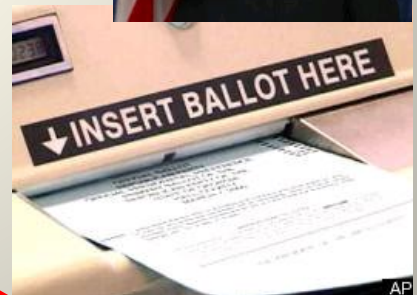
Debra Bowen  
Secretary of State

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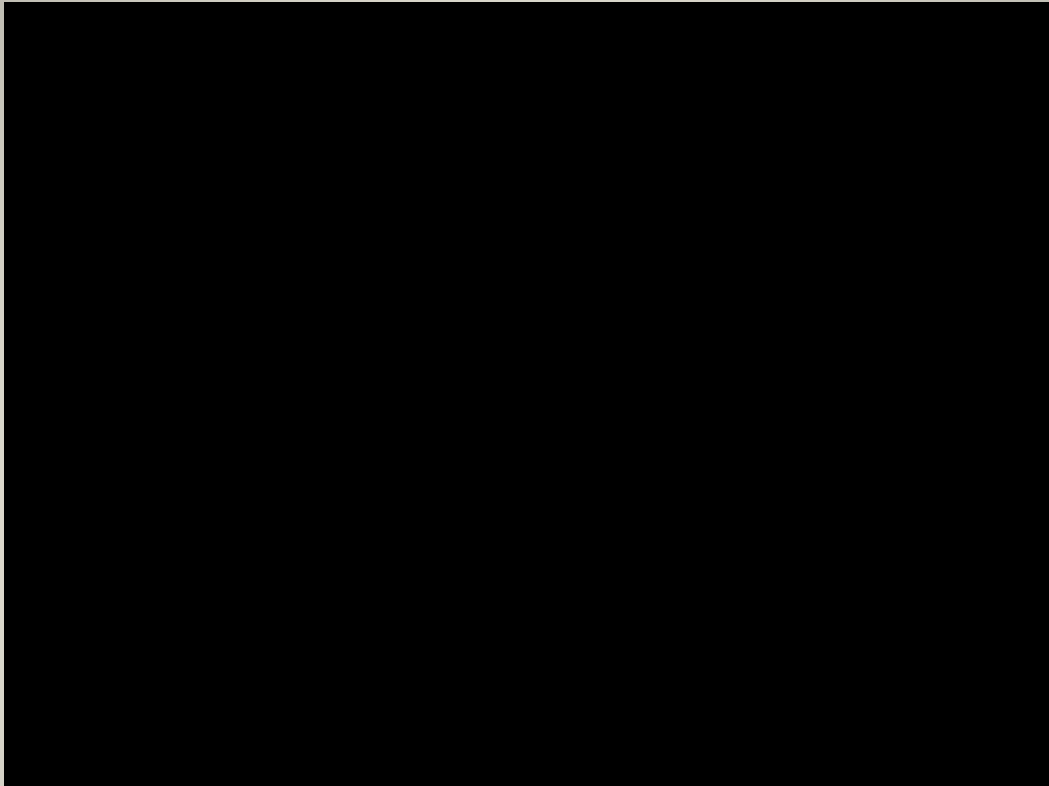


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# Post-May 19, 2009: Renewed Budget Crisis



THE BACK OF THIS DOCUMENT CONTAINS AN ARTIF

**STATE OF CAL**

THE TREASURER OF THE STATE WILL PAY OUT OF THE  
IDENTIFICATION NO.  
**1477586808** **4260**

is **REGISTERED WARRANT** will be honorec  
ess it's approved for earlier redemption pursuant to Gov.Code Se

**000610**

# Post-May 19, 2009: Renewed Budget Crisis



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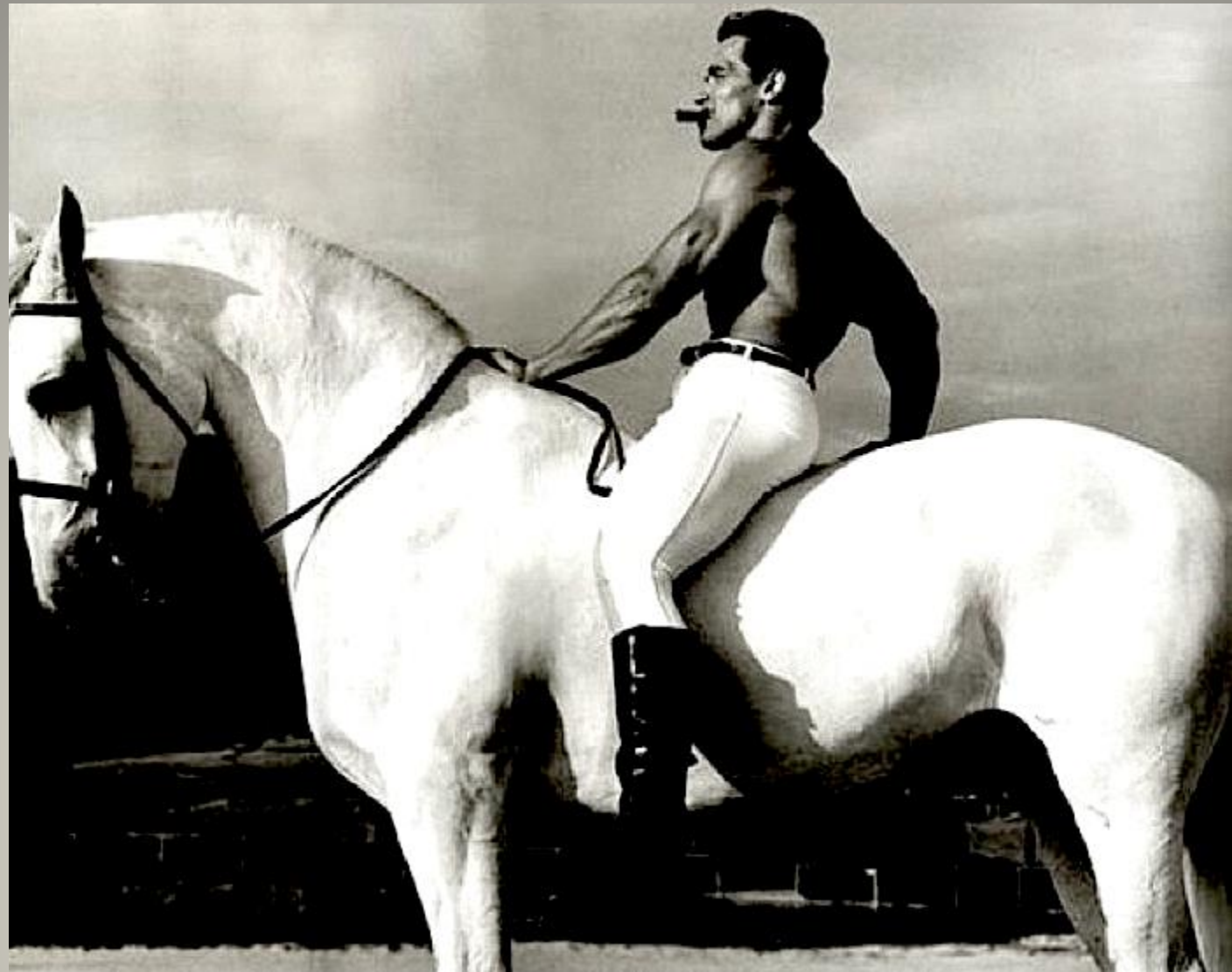
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**000610**





## **The Man on the White Horse Syndrome?**



**The Man on the White Horse  
Syndrome?**

# FORTUNE

ON DISPLAY UNTIL APRIL 6, 2009

## CAN MEG WHITMAN SAVE CALIFORNIA?

THE FORMER CEO  
OF EBAY GEARS UP TO  
RUN FOR GOVERNOR  
BY PATRICIA SELLERS  
PAGE 64

## INSIDE THE WORLD'S BIGGEST HEDGE FUND

BY BRIAN O'NEEFE  
PAGE 77

## MEL KARMAZIN FIGHTS TO RESCUE SIRIUS

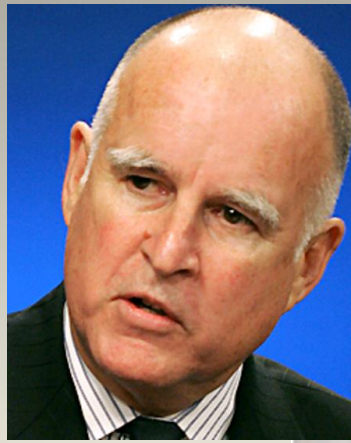
BY JON BIRGER  
PAGE 84

Meg Whitman  
and Brandy,  
Half Moon Bay, Calif.  
March 7, 2009

FORTUNE.COM

Woman on a Non-White Horse?





Weak Legislature



Weak Governor





# ***Failed State?***



***Whatever your answer, is there an underlying cause?***



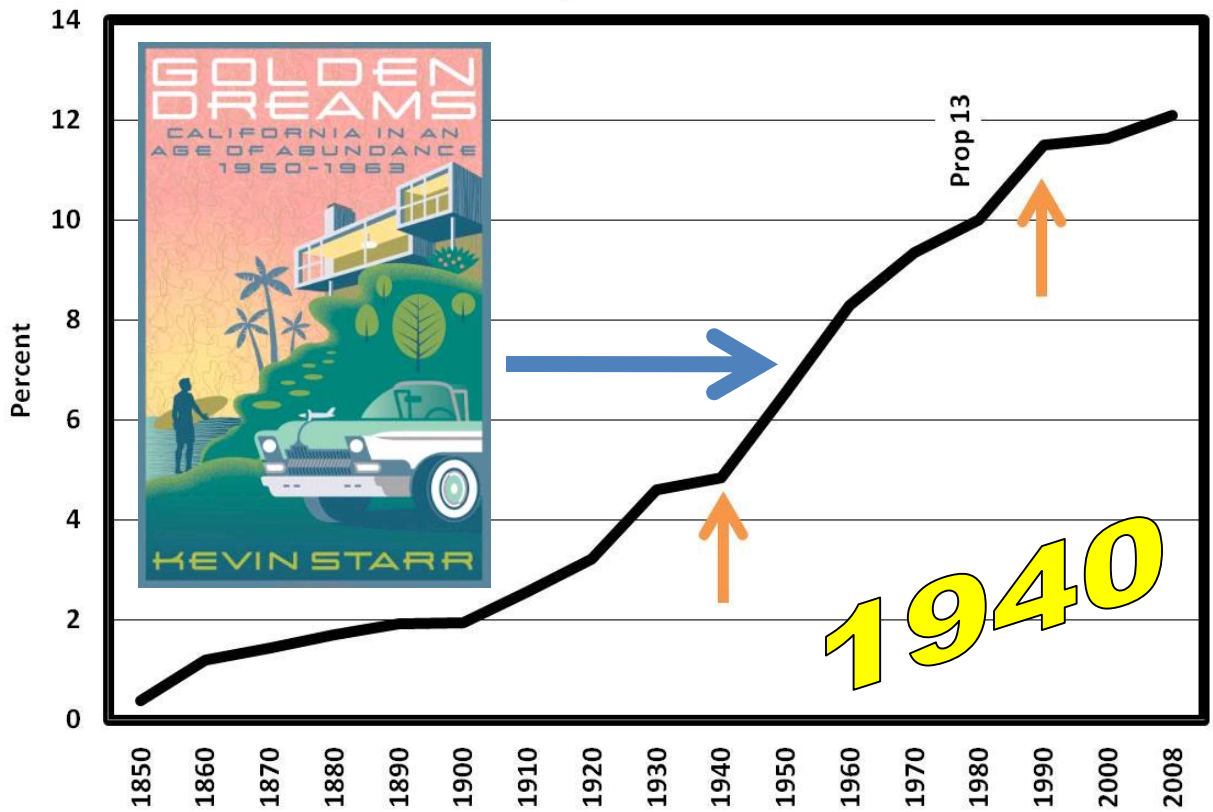
**The trouble with being average**

# ***Failed State?***



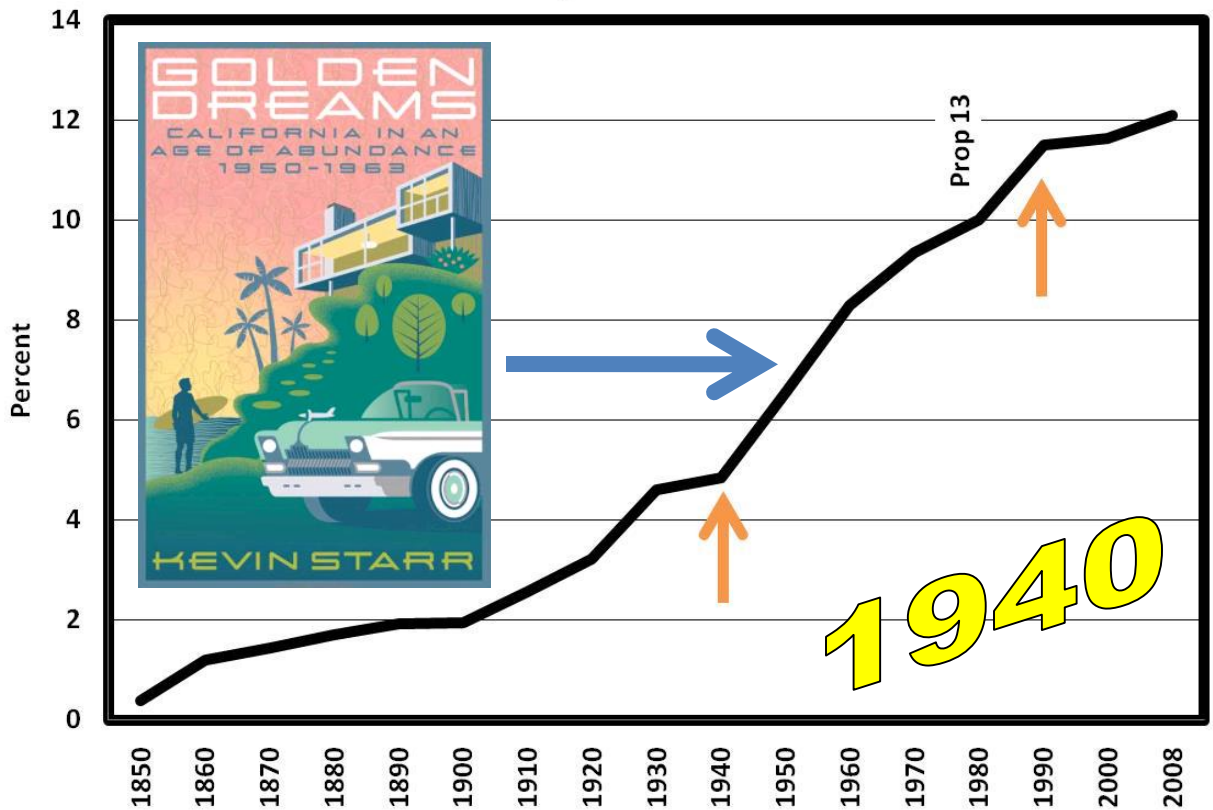
**The trouble with being  
average**

## California Population Relative to US



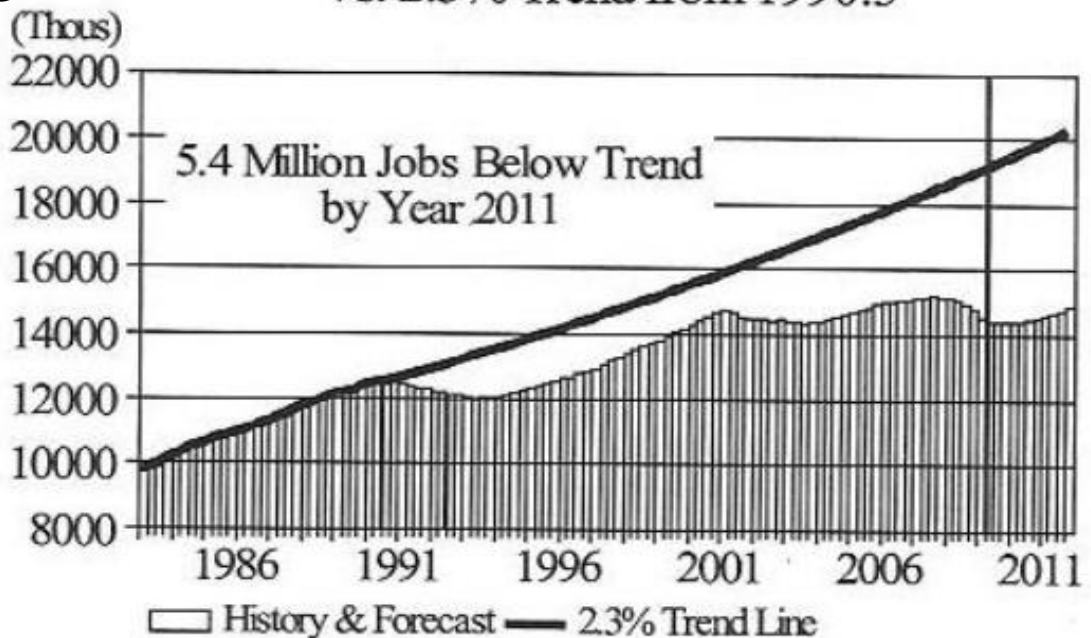


## California Population Relative to US



1990

## California Nonfarm Employment History & Forecast Vs. 2.3% Trend from 1990:3



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